

Profitability and selection in physician-owned specialty hospitals

ISSUE: In response to concerns about the rapid growth of physician-owned specialty hospitals, the Medicare Modernization Act requires MedPAC to conduct a study of these hospitals. Among other issues, MedPAC is required to examine whether Medicare's acute care hospital inpatient prospective payment system (IPPS) may be creating financial incentives for hospitals to specialize in certain clinical areas and to select low-cost patients. Payment systems may create incentives for specialization and patient selection if the payment rates are relatively more profitable for some patients and services than for others. A related issue is whether physician-owned specialty hospitals are treating a favorable selection of patients.

KEY POINTS: We will summarize the preliminary findings from our analysis of differences in relative profitability across diagnosis related groups (DRGs) under Medicare's IPPS. This analysis focuses on relative profitability across and within categories of patients frequently treated in physician-owned heart, orthopedic, and surgical hospitals. We will also summarize our findings on the extent to which physician-owned specialty and comparison hospitals treat a favorable selection of Medicare patients.

ACTION: We would appreciate comments and suggestions from the Commission on this topic.

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